



COUNTY OF LOS ANGELES TREASURER AND TAX COLLECTOR




MARK J. SALADINO
TREASURER AND TAX COLLECTOR

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April 24, 2007

TO: Supervisor Zev Yaroslavsky, Chairman
Supervisor Gloria Molina
Supervisor Yvonne B. Burke
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: Mark J. Saladino
Treasurer and Tax Collector 

SUBJECT: CREDIT RATINGS UPGRADE AND SUCCESSFUL SALE OF
\$94,315,000 REFUNDING REVENUE BONDS (LOS ANGELES
COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT)

This memorandum is to advise you that the County recently received two credit rating upgrades with respect to its Regional Park and Open Space District (the "District"). These upgrades were sought by my office in conjunction with the sale of \$94,315,000 in refunding revenue bonds (the "Bonds") for the District. Fitch Ratings and Moody's Investors Service raised the District's ratings to AA+ and Aa2, respectively, citing the ongoing stability of District revenues, strong debt service coverage, and the District's positive cash position. Each rating agency also emphasized the County's healthy economic outlook and substantial property tax base as further contributors to a strong ratings report. Standard and Poor's affirmed its AA rating of the District.

The improvement in the District's credit ratings was an important factor in the successful sale of the Bonds. As discussed in my March 15, 2007 memorandum to your Board, the Bonds were sold at a true interest cost of 3.821 % and will generate annual cash flow savings of approximately \$1.4 million through fiscal year 2019-20. A copy of the three ratings reports and a final Official Statement are attached to this memorandum. If you have questions regarding either the financing or the ratings upgrade, please contact me directly or have your staff contact Glenn Byers at 974-7175.

MJS:GB:DB
Pb/db/bosratingsmemo2007

Attachments

c: Executive Officer, Board of Supervisors
Chief Administrative Officer
Auditor-Controller
County Counsel
Director, Parks & Recreation

**Tax Supported
New Issue**

**Los Angeles County Public
Works Financing Authority,
California**

Ratings

New Issue

Refunding Revenue Bonds,
Series 2007A (Los Angeles
County Regional Park and
Open Space District)..... AA+

Outstanding Debt

Refunding Revenue Bonds,
Series 2005A (Los Angeles
County Regional Park and
Open Space District)..... AA+
(Upgraded from 'AA' on 3/5/07)

Rating Outlook Stable

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New Issue Details

Approximately \$94,460,000 Refunding Revenue Bonds, Series 2007A (Los Angeles County Regional Park and Open Space District), are expected to sell on or about March 12 via negotiation by UBS Investment Bank and Banc of America Securities LLC. The bonds are sold through a forward delivery agreement and will settle on or about July 5, 2007. The bonds mature Oct. 1, 2007-2019. Other details will be determined at pricing.

Security: The bonds are secured by payments made by the Los Angeles Regional Park and Open Space District to the authority from special benefit assessment proceeds. The bonds also are secured by a debt service reserve fund.

Purpose: Bond proceeds will be used to advance refund the remaining portion of the authority's series 1997A bonds.

March 9, 2007

■ Outlook

The rating upgrade from 'AA' to 'AA+' reflects the pledged revenues' ongoing stability, continued strong debt service coverage, Fitch Ratings' belief that the district will not issue any more debt, and the district's strong cash position. The 'AA+' rating also reflects the assessments' stability and the district's flexible expenditure needs and underlying economic strength. The district is coterminous with Los Angeles County, and all properties except large, vacant land are assessed. The fixed amount assessments are very low relative to property value and collected with general property taxes. Payer diversity is high, with 72% coming from residential properties.

■ Rating Considerations

The bonds are secured by payments made by the district from pledged benefit assessments, including penalties and interest on delinquent payments. The district and initial assessment were established by voters in 1992; an additional assessment was added in 1996. The district is charged with building, restoring, maintaining, and improving beaches, parks, recreational facilities, and open spaces. The assessment is based on land use and size, with the average single-family home paying \$19.28 annually. Delinquency rates have reached 4% in some years, but collections over a five-year period are strong, and penalties and interest are high. Bond payments are secured by the share of assessments dedicated by state law to capital projects and debt service. This amount is a minimum of 80% of total collections but no more than 85%.

In fiscal 2006, pledged revenue totaled \$63.8 million, providing strong debt service coverage of 1.68 times (x). Excluding penalties, interest, and delinquent payments, coverage remains strong at 1.59x. With debt service savings from this refunding, coverage is expected to rise to 1.77x. Projections for future years' debt service coverage remain at about this high level, and are based on minimal growth, since the assessment only increases as parcels are developed or land use changes. Debt service coverage is protected by a sound additional bonds test, requiring that pledged assessments in the most recent fiscal year cover maximum annual debt service, including the proposed issue, by at least 1.15x. However, the authority and district have represented that they do not intend to issue additional debt. Rather, the district will use its sizable reserves for future acquisitions and improvements. Fitch believes this representation to be realistic and has relied on it in the rating upgrade.

The district's financial operations are strong, marked by sizable and liquid reserves and flexible spending needs. Spending was deferred

in the district's initial years because of lengthy acquisition processes, resulting in sizable accumulated reserves. Project acquisition and improvement then commenced, although reserves remain high and liquid. The district ended fiscal 2006 with \$246.1 million in total fund balance available, with \$99.7 million reserved for identified projects. The total and unreserved fund balances are very high relative to annual spending, which averaged \$92.9 million from fiscal years 2001–2006. Fitch views the nature of park and open space projects to incorporate significant flexibility to keep spending within revenue and reserve levels. This financial flexibility, along with the relative certainty of the district's revenue, enhances bond security.

The district's debt burden is low at \$1,800 per capita and 2.4% of assessed value. The vast majority of total debt comes from overlapping entities. Bond proceeds will be used to refund the authority's 1997 bonds issued on the district's behalf, resulting in an estimated debt service savings of a high 5.5% of refunded par.

■ Strengths

- Strong debt service coverage by a stable revenue source.
- The district's financial flexibility and good current condition.
- Sound legal protections.

■ Risk

- Pledged revenue has very little potential for growth.

■ Los Angeles County Public Works Financing Authority

The Los Angeles County Public Works Financing Authority (the authority) is a joint powers authority created by the Los Angeles County Flood Control District in 1993 to assist county public entities in financing capital projects. The Los Angeles County board of supervisors serves ex officio as the authority's board of directors, and all deputies or assistants of the county's officers are ex officio in the same role to the authority.

■ Los Angeles County Regional Park and Open Space District

The district was established by voter approval in November 1992. The vote also approved the initial benefit assessment at \$9.39 per benefit point. A similar vote in 1996 approved an additional assessment, \$5.07

per benefit point. The district was established to preserve and improve existing parks and open space areas throughout the county, as well as develop, construct, and maintain other recreational and open space projects.

Each assessment is levied for 22 years, with the initial amount charged through fiscal 2015 and the additional amount through fiscal 2019. The assessment is based on the benefit a property receives from park and open space projects, including increased market value. Each property is assigned a benefit point amount based on lot size and zoned use. The average single-family home, for example, is assessed at 1.33 benefit points, or an annual charge of \$19.28, very low relative to property values. The assessments are collected along with general property taxes, and partial payments are allocated pro rata among all taxing entities. Delinquencies are charged high penalties and interest, including a 10% redemption fee and interest charged at 1.5% per month.

The district is large and coterminous with Los Angeles County. It encompasses 4,083 square feet over 2.2 million parcels. With the assessment based on land use type and size rather than ad valorem values, the majority of parcels are residential. In fact, 71.5% of all assessments collected in fiscal 2004 were from residential property owners.

■ Debt and Transaction Structure

The authority will use bond proceeds to purchase a like amount of bonds from the district. The district's bonds are secured by pledged revenue, including a share of interest and penalties collected on delinquent payments. Pledged revenue consists of 80%–85% of the special benefit assessments required by state law to be allocated for capital costs, including debt service. State law also requires that 15%–20% of collected assessments be used for maintenance, operation, and administration, with the later restricted to no more than 5% of total collections. Delinquent payment penalties and interest are allocated in this manner as well, and the 80%–85% share dedicated to capital spending and debt service also is pledged to bond repayment. Bond security includes a debt service reserve fund equal to the least of maximum annual debt service, 125% of average annual debt service, or 10% of bond proceeds.

Bond proceeds will be used, along with prior debt service reserve funds, to advance refund about \$103.9 million in outstanding series 1997A bonds,

Benefit Assessment Coverage

(\$000, Fiscal Years Ended June 30)

Fiscal Year	Net Base Assessment	Pledged Net Base Assessment*	Debt Service	Debt Service Coverage (x)	Delinquencies, Penalties, Interest, and Adjustments	Pledged Delinquencies, Penalties, Interest, and Adjustments**	Total Available for Debt Service	Total Available Coverage (x)
2000	74,039	59,231	48,678	1.22	2,927	2,342	61,573	1.26
2001	74,270	59,416	48,678	1.22	3,081	2,465	61,881	1.27
2002	74,544	59,635	39,227	1.52	2,887	2,310	61,945	1.58
2003	75,032	60,026	39,227	1.53	3,312	2,650	62,675	1.60
2004	75,215	60,172	39,229	1.53	3,595	2,876	63,048	1.61
2005	75,698	60,558	38,385	1.58	4,546	3,637	64,195	1.67
2006	75,658	60,526	38,073	1.59	4,147	3,318	63,844	1.68
% Change	0.36	0.36	—	—	—	—	0.61	—
2006†	75,658	60,526	36,121	1.68	4,147	3,318	63,844	1.77

*Net base assessments are net of appeals and delinquencies; 80% of total. **Pledged delinquencies, penalties, interest, and adjustments are 80% of total. †Coverage after refunding.

the full amount that remains outstanding after a 2005 refunding.

The additional bonds test is sound, given the stability of assessment revenue. The district can issue additional parity bonds if total benefit points in the district in the preceding fiscal year multiplied by 80% of the maximum assessment rate and the collection rate in the same fiscal year produces an amount that covers maximum annual debt service including the proposed issue by at least 1.15x. While the coverage factor is low, Fitch views the assessment revenue's predictability and enforceability as more than compensating.

The district represents that it does not intend to issue any additional debt. Fitch believes this future issuance is highly unlikely, given the substantial amount of unspent benefit assessment proceeds the district holds, as well as the assessment's significant reduction in fiscal 2016 and the remainder's end in fiscal 2020.

■ Debt Service Coverage

Pledged revenue in fiscal 2006 totaled \$63.8 million, including \$3.3 million in net penalties, interest, and adjustments. This amount covered debt service that year, \$38.1 million, a sound 1.68x. Coverage excluding delinquent payments also was strong at 1.59x. With this refunding and assumed debt service savings, coverage rose slightly; pledged revenue in fiscal 2006 covers the projected maximum annual debt service, \$36.1 million, a strong 1.77x.

With the assessment based solely on land use and parcel size, revenue collections are stable and predictable. Change only will occur if land use changes, developed land becoming publicly owned,

or if developed land is turned into vacant property. Given the highly developed nature of Los Angeles County, these changes are not likely. However, in the event of extreme damage, likely from a natural hazard such as an earthquake or fire, the assessment may temporarily decline as properties remain vacant before being rebuilt.

Similarly, opportunity for assessment growth is limited. Assessment revenue has increased a minimal 0.4% per year during fiscal years 2001–2006.

■ Finances

The district's financial operations are strong, marked by high year-end balances, revenue stability, and inherent financial flexibility. With spending limited to parks, recreation, and open space, the district has substantial control over its cash flow and total annual costs. Fitch views this discretion as a credit strength, particularly when paired with a high degree of revenue certainty.

The district ended fiscal 2006 with \$462.1 million in the general fund balance, more than double the average annual expenditures and transfers out for debt service, \$92.7 million, during the same period. The unreserved portion also is high at \$146.4 million, with the remainder set aside for anticipated capital projects. Much of the balance was accumulated during the two assessments' initial years, as capital spending began slowly.

Projects largely are identified and developed by cities, Los Angeles County, and nonprofit conservation organizations, with the district providing reimbursement. While spending has slowed, attributed by the district to lengthy acquisition and design

processes, Fitch expects continued reduction in the large fund balance projects are identified and developed.

■ Economy

The Los Angeles County economy is vast and diverse, incorporating the regional business, commercial, and cultural center of a large five-county geographic region, as well as smaller urban areas, suburban communities, and a sizable coastline. The county's employment base is stable, growing slowly from 2004–2006, following only a mild recessionary downturn in 2002 and 2003. The county's unemployment rate now is about that of the state's, owing largely to labor force gains that have been slower than job gains. The population now stands at 10.2 million, up 7.6% since 2000. The county's income levels are about even with the nation's but below the state's, although there is wide variation among areas.

The county's tax base has risen substantially, reflecting both new construction and value gains recorded when property sales occur. Assessed valuation growth averaged 7.9% per year from

fiscal years 2000–2006. While Fitch believes the value gains may leave the county vulnerable to a significant decline, the area's overall economic strength, highly developed nature, and natural assets will provide a solid base of support.

The county employment base is diverse, led by wholesale and retail trade making up 16% of all jobs, government with 15%, professional and businesses services at 14%, and education and health services and manufacturing at about 12% each. However, manufacturing employment continues to decline, with losses averaging 4.4% per year from 1998–2005. The county's largest employers reflect its role as an economic center and the importance of the aerospace and entertainment industries. The top employers include several public sector entities, such as the city, county, Los Angeles Unified School District, the federal government, and University of California, Los Angeles. Sizable private sector employers include Kaiser Permanente (nearly 30,000 employees), The Boeing Company (about 20,000), Northrup Grumman Corp. (about 20,000), Ralph's Grocery Company (about 16,000), and Target (about 11,000).

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Moody's Investors Service

Global Credit Research

New Issue

8 MAR 2007

New Issue: Los Angeles Cnty.Reg. Pk.&Open SpaceDist., CA

MOODY'S UPGRADES TO Aa2 FROM Aa3 THE RATING ON LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT'S REVENUE BONDS

APPROXIMATELY \$276 MILLION IN DEBT AFFECTED

Los Angeles Cnty.Reg. Pk.&Open SpaceDist., CA
Other Sectors
CA

Moody's Rating

ISSUE	RATING
Refunding Revenue Bonds Series 2007	Aa2
Sale Amount	\$98,490,000
Expected Sale Date	03/12/07
Rating Description	Special Assessment

Opinion

NEW YORK, Mar 8, 2007 -- Moody's has upgraded to Aa2 from Aa3 the rating on the Los Angeles County Regional Park and Open Space District's parity assessment bonds and assigned an Aa2 rating to its Refunding Revenue Bonds, Series 2007A, issued by the Los Angeles County Public Works Financing Authority. The upgrade reflects the slow but steady improvement in debt service coverage levels resulting from higher revenues, coupled with our understanding and expectation based on the District's assertion that no additional parity bonds are expected to be issued through the life of the outstanding parity bonds. The rating also reflects the limited nature of the obligation balanced against the extremely large size of the assessment base, the expected stability of the pledged revenues, and the ample level of coverage. Other factors included in the rating are the strength of the county's economy and satisfactory legal provisions. The bonds are secured by a first lien on 80% of the proceeds of a special benefit assessment levied by the District on essentially all parcels in the county. The proceeds of the current offering along with funds on hand will refund approximately \$127 million of outstanding 1997 bonds. Approximately \$276 million of parity debt will remain following the current offering.

BASE IS EXTREMELY LARGE; PLEDGED ASSESSMENTS REPRESENT AN UNUSUALLY STABLE STREAM OF REVENUES.

Benefit assessments consist of annual charges levied on all 2.2 million parcels within the county, excluding public properties, uninhabited agricultural land, cemeteries, utilities, and certain exempt parcels, but including vacant parcels less than 2.5 acres in size. Individual assessments are not based upon assessed value, but are instead based on the assignment of "benefit points" which, in turn, are based upon the size and land use of each parcel. The District is authorized to levy assessments annually at a rate of up to \$14.46 per benefit point through fiscal year 2015, and up to \$5.07 per point for fiscal years 2016 through 2019. The typical annual assessment for a single family home on a median-sized parcel, at the current maximum rate, is \$19.28. The total base assessment levy for fiscal 2006 is \$78.4.million.

Because of the method of determining individual assessments and the extremely large size of the assessment base, the stream of pledged revenues should be extremely stable. Since assessments are not based on value, they will not be negatively affected by a downturn in property values. For example, during the period from fiscal 1994 to 1997 when the county's assessed valuation declined by 0.85% as a result of recession-driven declines in property values, the assessment base actually increased by 5.18%. Over time, the assessment base will continue to grow as property is subdivided and developed, although in periods of economic growth the rate of increase is likely to be less than the increase in assessed value. Conversely, if parcels are consolidated, assessments could conceivably decrease, although we don't expect this to occur to any notable degree.

Additional positive features of the assessment formula are that, compared to ad valorem taxes, a greater portion of assessments are paid by residential properties and the largest assessment payers represent a smaller share of the total levy. Both of these factors additionally stabilize the revenue stream.

COVERAGE FOR CURRENT AND FUTURE BOND ISSUES IS AMPLE.

Based on conservative assumptions of no growth in the assessment base, 3.1% delinquencies, and no collection of prior year delinquencies, pledged assessments provide a minimum of 1.59 times coverage on all parity debt service. Projections prepared by the District, which allow for modest growth in the assessment base and recovery of 91% of delinquent assessments over a five-year period, show minimum coverage of 1.68 times on all parity debt. The additional bonds test requires at least 1.15 times coverage of maximum annual debt service. These levels of coverage are ample given the size of the tax base and the stability of the underlying revenue stream.

BROAD, DIVERSE ECONOMY IS GROWING AND MAINTAINING STRENGTH.

County unemployment rates have declined from 5.1% in December, 2005 to 4.2% in December 2006, and for the first time in recent memory, the December rate is under the state rate of 4.6% and the national level of 4.3%. However, total employment of 4.652 million and labor force of 4.855 million represent declines from the December 2005 levels of 4.715 million and 4.967 million, respectively. Economically sensitive revenue streams, such as sales and business taxes, are growing, as are assessed values. The regional economy is now more diverse than in the past and is well positioned in several key growth industries including trade, technology, entertainment, and tourism.

LEGAL PROTECTIONS ARE STRONG.

Assessments are levied on the general property tax bill, are collected along with property taxes, and represent a lien on property equal to the lien of property taxes. Delinquent assessments are subject to the same penalty and interest charges as general property taxes. The District has covenanted to take action on delinquent assessments in a manner consistent with the county's policy for general property taxes; current law and policy provides for foreclosure after five years. The bonds are also protected by a reserve fund, funded from proceeds in an amount equal to 10% of par.

KEY STATISTICS

Maximum annual debt service coverage with 2006 Revenues: 1.68x

Total amount of senior lien debt outstanding: \$276 million (estimate)

Los Angeles County Gross AV, 2006: \$872 billion

Number of assessed parcels securing current debt: 2.2 million

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RESEARCH**Los Angeles County Public Works Financing Authority, California; Miscellaneous Tax**

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Credit Profile

US\$138.64 mil rfdg rev bnds (Los Angeles Cnty Regl Pk And Open Space Dist) ser 2007A due 10/01/2019

Long Term Rating

AA/Stable

New

Los Angeles Cnty Pub Wks Fing Auth (Los Angeles Cnty Regl Pk And Open Space Dist)

Long Term Rating

AA/Stable

Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AA' rating to the Los Angeles County Public Works Financing Authority, Calif.'s \$138.64 million refunding revenue bonds, series 2007A. At the same time, Standard & Poor's affirmed its 'AA' rating on the authority's outstanding 1997 refunding bonds. District characteristics include:

- A large size, measuring 4,083 square miles and almost 2.2 million parcels;
- Exceptional diversity—75.2% of the property is residential and 20.5% commercial;
- Good debt service coverage provided by pledged assessment revenues and other available sources of liquidity; and
- No concentration in the tax base—the 15 largest assessments represented less than 1% of the 2003-2004 total assessment.

The bonds are secured by a first lien (less 15% for maintenance and services and 5% for administrative expenses) on benefit assessments levied annually throughout the Los Angeles County Regional Park and Open Space District, which is coterminous with the county. The original assessment was authorized by a majority of county voters in 1992, and an additional assessment to fund the 1997 projects was approved by a 65.1% of the voters in November 1996.

Proceeds will be used to refund the outstanding series 1997A bonds, approximately \$148 million. In addition to the current refunding bonds, the district has about \$177.7 million in outstanding bonds from its 2005A bonds, which were issued to refund a portion of the series 1997A bonds. The 1997 bonds were issued to refund the district's series 1994 bonds and to fund new projects, which are located throughout the county and the 88 cities in its boundaries. The district was established to improve and maintain parks, beaches, recreational areas, streams, and trails throughout the county.

The county department of parks and recreation administers the projects, which must meet formal eligibility standards established by the district. Assessments are based on benefit points, with the maximum amount fixed at \$9.39 for the original assessment under the 1992 order and \$5.07 per point additional assessment under the 1996 order, which results in an annual assessment of \$19.27 for a single-family home on a midsize parcel. Prior to fiscal 2005, the district levied the maximum assessment allowed under the 1992 authorization, generating \$50.9 million in fiscal 2005. Beginning in fiscal 2005, the district began levying the additional authorization pursuant to the 1996 order, generating an additional \$27.5 million that year. In 2006, the total assessment was \$78.4 million. Assessments and payments are administered as part of the annual property tax bill sent to parcel owners. Collections are strong, with delinquency rates dropping from

a high of 5.6% in 1993-1994 to 2.94% in 2003-2004 and 3.10% in fiscal 2005-2006. The district has covenanted that it will not reduce or defer the amount of assessment below an aggregate amount equal to 1.15x maximum annual debt service (MADS). Coverage is adequate for the rating level with fiscal 2007 assessment collections providing 1.64x coverage of MADS, assuming maximum recent delinquency rates and no penalty and interest earnings on late payers. Assuming a more recent delinquency rate of 3.1% and allowing for historic levels of penalties and interest earnings, coverage is slightly higher at 1.66x. Additional coverage is provided by district cash balances of \$108.95 million in funds that are earmarked for future projects, but legally available and \$54 million in funds that are, as yet, uncommitted. These cash balances are from previously collected assessments that have yet to be spent down on capital projects.

Although the district is essentially built out, assessment revenues will continue to grow as parcels are subdivided and vacant property is developed. As such, based on annual historic compound growth rates, the future benefit point growth is projected at 0.32% per year for residential properties while commercial and industrial properties are expected to experience future benefit point declines of 0.19%. Based on the 2006-2007 annual assessment, 71.63% of total assessments were derived from residential properties, 25.57% from commercial, and 1.8% from other.

The district does not have any swaps or derivatives outstanding.

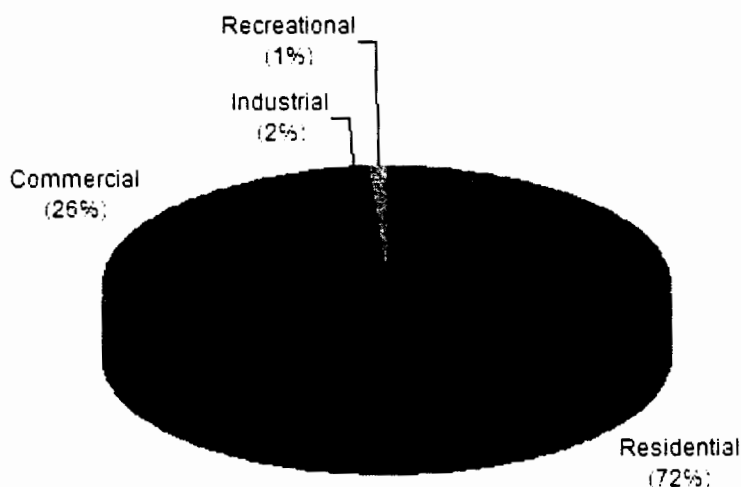
Outlook

The stable outlook reflects the district's exceptional diversity and deep regional economy, which should continue to provide debt service coverage ratios adequate for the current rating level. We expect rating stability to persist unless the district experiences a significant increase in assessment delinquencies concurrent with a spend-down of cash balances available for debt service payments, both of which are contrary to recent district experience.

Economy Is Large, Diverse

Los Angeles County is very large and holds 10.3 million residents, or 27.7% of California's population. The economy is healthy, with diversity in industrial sectors that should insulate the county from declines, such as the one that affected aerospace employment in the early 1990s, when the county's unemployment rate was well above national levels. Entertainment, international trade, and tourism are leading employment sectors. In 2005, county unemployment was 5.3%, about even with the national average of 5.2%, and the best it has been since the late 1980s. The county also benefits from a strong port infrastructure and the resulting strong trade links to Asia and Latin America. Relative county income levels have improved against national averages in the past several years after a period of decline during the 1990s. Per capita effective buying income (EBI) for 2003 was 91.3% of the national level, and median household EBI was 100.6%. Per capita retail sales also declined in the 1990s, but rebounded somewhat to 86.7% of the national average in 2003. Total assessed value (AV) for fiscal 2007 increased to \$934 billion, or a strong \$90,632 per capita, following similar strong growth in the past few years.

L.A. County Public Works Financing Authority Assessment Payer Composition



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Ratings Detail (As Of 05-Mar-2007)

Los Angeles Cnty Pub Wks Fing Auth rfdg rev bnds (Los Angeles Cnty Regl Park & Open Space Dist) (FSA)

Unenhanced Rating

AA(SPUR)/Stable

Affirmed

Many issues are enhanced by bond insurance.

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